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United States General Accounting Office
Washington, DC 20548

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TO AUDIT OFFICIALS AND OTHERS INTERESTED IN GOVERNMENT AUDITING STANDARDS

GAO invites your comments on the accompanying proposed changes to *Government Auditing Standards* (GAGAS), commonly known as the “yellow book.” These changes propose revision throughout the entire set of standards except for the second general standard, independence, which is being revised separately. The proposed revisions fall into three categories: GAGAS framework, consistent application of the standards where applicable to the various types of audits, and strengthening or streamlining the standards. This letter describes the process followed in revising the standards, summarizes proposed major changes, outlines the format of this exposure draft, and requests comments from interested parties on these proposed revisions.

To help ensure that the standards continue to meet the needs of the audit community and the public it serves, the Comptroller General of the United States appointed the Advisory Council on Government Auditing Standards to review the standards and recommend necessary changes. The Advisory Council includes experts in financial and performance auditing drawn from all levels of government, private enterprise, public accounting, and academia. Public comment is requested on all draft revisions to the standards. This exposure draft reflects the Advisory Council’s advice to the Comptroller General.

To assist you in developing your comments, this letter discusses the proposed GAGAS framework and encloses a listing of the proposed changes to GAGAS made for consistent application of the standards or for strengthening or streamlining the standards.

The types of audits and services and applicable standards are organized by separate chapters for financial audits, attestation engagements, and performance audits in order to make the standards user friendly. For example, the financial audit and attestation chapters are directed at auditors with a financial audit background and the required knowledge of the American Institute of Certified Public Accountants’ (AICPA) Generally Accepted Auditing Standards (GAAS) and Attestation Standards. The performance audit chapters are written to avoid use of terminology drawn from financial audits.

The financial audit presentation proposes retaining the current format of separate chapters for field and reporting standards. The term financial audit is defined to include financial statement audits

and other services covered by GAAS and the AICPA's *Statements on Auditing Standards* (SASs), which interpret the standards. These other services are defined in the SASs and include areas such as special reports, reviews of interim financial information, letters to underwriters and certain other requesting parties, compliance auditing, and audits of service organizations.

Attestation engagements are defined as those services performed under the AICPA's Attestation Standards and the related *Statement on Standards for Attestation Engagements* (SSAEs), which interpret the standards. As the proposed additional GAGAS standards are fewer than for financial audits, the field and reporting standards are presented in a single chapter.

GAGAS proposes recognizing the overlap between attestation engagement objectives and performance audit objectives and allowing the services that overlap to be performed under either set of standards. Therefore, GAGAS simply proposes to recognize the reality of current practice. Namely, performance auditors provide these services using performance audit standards, and financial auditors are likely to provide these services using the attestation standards. We are not aware of any problems that have arisen as a result of this practice.

The presentation of the financial audit chapters proposes eliminating the term "financial related audits" by specifically recognizing the services in addition to financial statement audits that are covered by the AICPA's *Statements on Auditing Standards* in chapters 4 and 5 or by the *Statement on Standards for Attestation Engagements* in chapter 6. The term "financial related audits" was the source of considerable confusion to the users of GAGAS. By specifically recognizing the services covered by the AICPA's SASs and SSAEs, we have proposed clarifying what in fact was intended by this term, but not always understood by the users of GAGAS.

The proposed changes related to performance audits retain the current presentation of separate chapters for field and reporting standards. The Advisory Council has recognized that GAGAS applicable to the performance audit objectives of effectiveness, economy and efficiency, internal control, and compliance are also applicable to prospective analyses, guidance, or summary information. Therefore, we have proposed including that latter objective in the definition of performance audits, as discussed in chapter 2, and in the presentation of field work and reporting standards, in chapters 7 and 8, applicable to the various objectives of performance audits. We believe this is a more logical and user friendly presentation than having a separate chapter discussing the field work and reporting standards for these objectives that would only tell the auditor to follow the same standards applicable to other types of performance audit objectives.

Chapter 2 of this exposure draft discusses nonaudit services provided by audit organizations that are not covered by GAGAS. These services generally differ from financial audits, attestation engagements, and performance audits in that auditors may (1) provide information or data to a requesting party without providing verification, analysis, or evaluation of the information or data, and therefore the work does not usually provide a basis for conclusions, recommendations, or opinions on the information or data, or (2) perform tasks requested by management that directly support the entity's operations, such as asset evaluation, actuarial services, or information system design services. Audit organizations are encouraged to establish policies for maintaining the

quality of this type of work. This exposure draft does not discuss the impact of the provision of nonaudit services on auditor independence. That issue was addressed in the May 2001 exposure draft and comments are currently being considered.

As previously stated, we are enclosing a numbered listing of the more significant proposed changes made to the chapters for consistent application of GAGAS and the proposed changes made to strengthen or streamline GAGAS. The enclosure includes a reference to the applicable proposed revised paragraph(s) of GAGAS. The enclosure does not include the proposed reorganization of the order of presentation to provide a more logical grouping of the standards by function, such as planning, audit documentation, report content, and the audit process. This proposed type of change was primarily made to the presentation of the performance audit chapters.

Given the extensiveness of the proposed revisions, we plan to issue a new version of GAGAS that will incorporate existing amendments. We expect this revision of the standards to supersede the 1994 revision, including amendments 1 and 2. Thereafter, we intend to continue our policy of issuing amendments addressing specific issues as needed. We anticipate this revision of the standards, when finalized, will become effective for financial audits of periods ending on or after January 1, 2003, and for attestation engagements and performance audits beginning on or after January 1, 2003.

This draft is being sent to financial management and audit officials at all levels of government, the public accounting profession, academia, professional organizations, and public interest groups. We encourage you to send your comments, whether you wish to comment on the entire document or only a portion of it. It would be helpful to key your comments to the specific paragraph numbers, give your rationale for any proposed changes, and suggest revised language.

Additional copies of this exposure draft can be obtained from the U.S. General Accounting Office, Room 1100, 700 4th Street, NW, Washington, DC 20548 or by calling (202) 512-6000.

A marked version of the exposure draft is available on the Internet on GAO's Home Page (www.gao.gov/govaud/ybk01.htm). In the marked version, italicizing and bolding are used to identify potential added language and striking-out is used to identify potential deleted language from the 1994 revision of *Government Auditing Standards*, as currently amended.

Since GAO is still experiencing delays in mail delivery, it would be preferable if you sent your comments via e-mail to yellowbook@gao.gov. To ensure that your comments are considered by the Advisory Council in their deliberations, please submit them by April 30, 2002. If you need to use the mail, it would be helpful if you sent your comments both in writing and on diskette (in Word or ASCII format). Please send any mail to the following address:

Government Auditing Standards Comments
U.S. General Accounting Office
Room 5X16 (FMA)
441 G Street, NW
Washington, DC 20548

If you need additional information, please call Marcia Buchanan, Assistant Director, Financial Management and Assurance at (202) 512-9321 or Cheryl Clark, Assistant Director, Financial Management and Assurance at (202) 512-9377.

Sincerely yours,

A handwritten signature in black ink, reading "Jeffrey C. Steinhoff". The signature is fluid and cursive, with the first name "Jeffrey" being more prominent and the last name "Steinhoff" following in a similar style.

Jeffrey C. Steinhoff
Managing Director
Financial Management and Assurance

Enclosures